Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

EXECUTIVE SECRETARIAT

ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	VC/NIC				
16	NIO/ECON	X			
17	D/OGI		X		
18					
19					
20					
21					
22					
	SUSPENSE _____ Date				

Remarks

STAT

Executive Secretary

16 Oct 85

Date

3637 (10-81)

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

EPC Mtg
Registry
85- 3945
17 Oct 85

THE WHITE HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 10/16/85 **Number:** 317008CA **Due By:** _____

Subject: Economic Policy Council Meeting -- October 17, 1985

1:00 pm -- Roosevelt Room

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☐	☑
Justice	☐	☑
Interior	☐	☐
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☐
HUD	☐	☐
Transportation	☑	☐
Energy	☐	☐
Chief of Staff	☑	☐
Education	☐	☐
OMB	☑	☐
CIA	☐	☑
UN	☐	☐
USTR	☑	☐
GSA	☐	☐
EPA	☐	☐
NASA	☐	☐
OPM	☐	☐
VA	☐	☐
SBA	☐	☐

	Action	FYI
CEA	☑	☐
CEQ	☐	☐
OSTP	☐	☐
_____	☐	☐
_____	☐	☐
_____	☐	☐
_____	☐	☐
McFarlane	☑	☐
Svahn	☑	☐
Chew *(For WH Staffing)*	☑	☐
	☐	☐
HICKS	☐	☑
_____	☐	☐
_____	☐	☐
_____	☐	☐
_____	☐	☐
Executive Secretary for:		
DPC	☐	☑
EPC	☑	☐
_____	☐	☐
_____	☐	☐
_____	☐	☐
_____	☐	☐
_____	☐	☐

REMARKS:

There will be an Economic Policy Council Meeting on Thursday, October 17, at 1:00 pm in the Roosevelt Room.

The agenda and background papers are attached.

RETURN TO:

☑ **Alfred H. Kingon**
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ **Don Clarey**
☐ **Rick Davis**
☐ **Ed Stucky**

Associate Director

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

October 17, 1985

1:00 p.m.

Roosevelt Room

AGENDA

1. Cook Inlet Oil Exports
2. Trade Adjustment Assistance

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Executive Registry
85- 3945

THE WHITE HOUSE

WASHINGTON

October 15, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. McALLISTER EM

SUBJECT: Agenda and Papers for the October 17 Meeting

The agenda and papers for the October 17 meeting of the Economic Policy Council are attached. The meeting is scheduled for 1:00 p.m. in the Roosevelt Room.

The first agenda item is Cook Inlet oil exports. At its September 19 meeting regarding the export of Alaskan oil, including North Slope oil, the Council asked to consider the issue of Cook Inlet oil separately. The attached paper outlines three options regarding Cook Inlet oil: (1) not permitting the export of Cook Inlet oil; (2) permitting such exports; or (3) permitting such exports with certain conditions attached. A second paper describing possible conditions is also attached.

The second agenda item is trade adjustment assistance. The Congress is currently considering proposals in the reconciliation legislation to extend and expand the Trade Adjustment Assistance program. The attached paper outlines the following options: (1) continue opposing extension; (2) continue opposing extension, but expand resources for the discretionary portion of the displaced worker program in the Job Training Partnership Act; (3) continue opposing extension in reconciliation legislation, but address a straight extension in trade legislation; (4) support extending and modifying the program; or (5) support extending the program, but provide compensation as a lump-sum, instead of over a long period.

Attachment

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

October 15, 1985

COOK INLET OIL EXPORTS

ISSUE: Should the Administration take action to permit the export of Cook Inlet oil?

The Council needs to address this issue now because the President is scheduled during the week of October 21 to meet with Prime Minister Nakasone, who may raise the issue of whether the U.S. will permit the export of Cook Inlet oil.

BACKGROUND

The Energy Policy and Conservation Act (EPCA) restricts the export of all domestic crude oil, including Cook Inlet oil. Total Cook Inlet production is about 60,000 barrels per day (b/d), of which about 15,000-30,000 b/d may be available for export. Japan, Taiwan, and South Korea have expressed an interest in importing this oil. Exporting Cook Inlet oil to East Asian countries would be more profitable than selling it to the lower 48 states because of lower shipping costs. The estimated per barrel cost to ship oil to Japan, for example, is $0.40, compared to $0.85 to the West Coast and $3.80 to the U.S. Gulf.

The U.S. can export Cook Inlet oil only if the President or the Secretary of Commerce finds under the EPCA that such exports are in the "national interest," and the Department of Commerce amends its Export Administration Regulations. The Congress has no explicit authority to disapprove a "national interest" finding. The President made such a finding on June 14, 1985 to permit oil exports to Canada.

The Trade Policy Review Group (TPRG) recommends that any Cook Inlet oil exports be made available to all countries, not just Japan. In fact, the U.S. has already told South Korea that it would be eligible to buy Cook Inlet oil on a market competitive basis.

POLICY OBJECTIVES

Several key objectives should guide the Administration's decision whether to permit the export of Cook Inlet oil:

- Contributing to U.S.-Japan relations. Prime Minister Nakasone has expressed Japan's interest in buying Alaskan oil, in general, and Cook Inlet oil, in particular, repeatedly in meetings with President Reagan and may do so again in this upcoming meeting. The President has already stated to Prime Minister Nakasone that he personally favors permitting the export of Cook Inlet oil. Continued delay on this issue would hurt his credibility and also damage prospects for Japanese coal and natural gas purchases envisioned in the 1983 Reagan/Nakasone energy statement.

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

- Enhancing the Administration's efforts to defuse protectionist pressures and bring down trade barriers. It is uncertain whether permitting the export of a strategic resource, such as oil, to East Asian countries would defuse congressional protectionist pressures since some argue that the U.S. should not export strategic resources and there is strong congressional opposition to placing the U.S. in the position of exchanging raw materials for manufactured goods with other countries.

  However, restricting oil exports conflicts with our trade policy of expanding exports and hurts our ability to encourage other countries to bring down trade barriers. Although the volume of exports considered is small, the symbolic value of permitting the export of Cook Inlet oil could be significant.

- Maintaining consistency with the Administration's maritime policy. Permitting the export of Cook Inlet oil would not reduce current U.S. maritime employment because the oil under consideration is not now shipped, but refined and consumed in Alaska. Even if it were shipped to the lower 48 states, such shipping would require only about 12 tanker trips per year.

  However, the U.S. maritime industry will oppose permitting the export of Cook Inlet oil because it would interpret such an action as a first step toward permitting the export of all Alaskan oil.

Given the low volume of oil production being considered (15,000-30,000 b/d), the practical implications of this issue for our energy policy (through stimulating more production by raising the wellhead price) and budget policy (through increasing Federal revenues by taxing "windfall" profits and corporate income) are not very significant.

POLICY OPTIONS

Option 1: Do not permit the export of Cook Inlet oil.

Advantage

- Avoids risking a potentially divisive confrontation with the Congress over a low volume of oil exports because: (a) many in the Congress object to the export of strategic resources; and (b) the U.S. maritime industry would interpret such an action as a first step toward permitting the export of all Alaskan oil.

Disadvantages

- Hurts the President's credibility with the Japanese since he has already stated that he personally favors permitting such exports, and damages prospects for Japanese coal and natural gas purchases.

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

- o Undermines our ability to encourage other countries to bring down their trade barriers and to seek energy security through cooperative efforts.

Option 2: Permit the export of Cook Inlet oil through administrative action.

Advantages

- o If exported to Japan, reinforces the President's credibility with the Japanese since he has already stated that he personally favors permitting such exports. Enhances the President's position in dealing with Prime Minister Nakasone on trade issues.

- o Enhances our ability to encourage other countries to bring down their trade barriers and continues our focus on expanding exports, instead of restricting imports.

Disadvantage

- o Risks a potentially divisive confrontation with the Congress over a low volume of oil exports because: (a) many in the Congress object to the export of strategic resources; and (b) the U.S. maritime industry would interpret such an action as a first step toward permitting the export of all Alaskan oil.

Option 3: Permit the export of Cook Inlet oil only if the importing country meets certain conditions.

A paper outlining several potential conditions the U.S. could attach to permitting the export of Cook Inlet oil is attached. These potential conditions concern petroleum products, coal, telecommunications procurement, grapefruit, and shipping.

Advantages (in addition to those in Option 2)

- o Provides the Administration some leverage with which to expand the exports of other U.S. products to countries interested in importing Cook Inlet oil.

Disadvantages (in addition to those in Option 2)

- o Runs the risk that Japan would also attach conditions to its trade liberalization measures. For example, in exchange for permitting more imports of U.S. telecommunications products, Japan might ask for fewer restrictions on U.S. imports of Japanese steel.

- o Probably provides the Administration with little leverage since the volume of oil exports considered is small, e.g., importing Cook Inlet oil would give Japan less than 30,000 b/d, which is minimal compared to its total oil imports of more than 4 million b/d.)

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

POTENTIAL CONDITIONS TO COOK INLET OIL EXPORTS

If the Administration decides to attach conditions to permitting the export of Cook Inlet oil, it might attach one or more of the following conditions addressing:

1. Refined petroleum products
2. Coal
3. Grapefruit
4. NTT and telecommunications product procurement
5. Shipping

Refined Petroleum Products

The U.S. could attempt to pin down the Japanese Government on fulfilling its commitment at a July 1985 International Energy Administration meeting to open fully its market to petroleum product imports, especially gasoline and other light products. The Japanese have proposed specific steps to allow the import of gasoline, kerosene, and gas oil. Prime Minister Nakasone has publicly encouraged MITI to proceed as quickly as possible in implementing the Government's commitment. We are concerned that the new framework, by limiting qualified importers to current domestic refiners, will maintain administrative controls on the import of gasoline and light products which will inhibit market forces in determining the level of imports.

It is possible that Japan would import more gasoline from the U.S., although the relative economics suggest that the increase would not be substantial. The value of Japan opening its petroleum product market would derive from Japan importing products from other producers that would otherwise be exported to the U.S. or Europe.

Coal

The U.S. could press Japan to maintain and also consider increasing imports of U.S. coal on a short-term basis. On a long-term basis, Japan should commit to purchasing U.S. coal. The U.S. annually exports about $150-175 million of coal to Japan.

Grapefruit

The U.S. could press Japan to bind its tariff rate on fresh grapefruit at zero all year round. The U.S. has long requested Japan to reduce its tariff rate on grapefruit. In 1984, total Japanese imports of grapefruit were $90.2 million, of which $87.3 million were supplied by the U.S.

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

NTT and Telecommunications Product Procurement

The U.S. could press for: (1) an explicit break of any link between NTT satellite procurement and consistency with the Japanese Government space program; and (2) increased NTT purchases of core and transmission equipment as well as optical fiber and cable. Despite our bilateral agreement, overall U.S. sales to NTT have been disappointing. Areas of key U.S. sales potential include communications satellites, core network and transmission equipment, and fiber optics.

These proposals would have the benefit of reinforcing the U.S. policy of seeking to change the restrictive Japanese Government space policy, while also increasing sophisticated equipment sales to NTT. The Japanese market in all these products is growing. While some progress has been made with private Japanese companies purchasing foreign satellites, the Japanese Government's space policy adamantly forbids NTT and government agency procurement of foreign satellites.

U.S. Shipping

The U.S. could insist that Cook Inlet oil exports be shipped on U.S. bottoms, even though there is no legal requirement to ship such products on U.S. bottoms. The TPRG notes that if the Administration did not insist that such exports be shipped on U.S. bottoms, there is a significant risk that the Congress may impose such a condition on its own, for example, as an amendment to the Department of Transportation appropriation bill. The U.S. maritime industry might perceive a lack of such a condition on Cook Inlet oil exports as a precedent for any exports of Alaskan North Slope oil.

On the other hand, insisting that such exports be shipped on U.S. bottoms establishes a precedent for similar conditions on exports of other U.S. products, for example, agricultural. In addition, insisting on U.S. bottoms could limit the Administration's flexibility in considering the issue of Alaskan North Slope oil. Finally, other countries might not be willing to import Cook Inlet oil if they have to ship it on U.S. bottoms.

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

October 15, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: THE WORKING GROUP ON LABOR ADJUSTMENT

SUBJECT: Trade Adjustment Assistance

The Trade Adjustment Assistance (TAA) program expired on September 30, 1985, but was temporarily extended through the continuing resolution until November 14. The Congress is currently considering legislation that would extend and modify the program. The Administration needs to decide several issues: (1) whether it should support or continue opposing TAA extension; and (2) if the Administration supports TAA extension, whether it should change the administration and financing of the program.

BACKGROUND

The TAA program under the Trade Act of 1974 is designed to provide assistance to workers displaced by imports in adjusting to new jobs. The current program provides workers exhausting their regular State unemployment insurance (UI) benefits of up to 26 weeks up to an additional 52 weeks of UI benefits plus subsidies for training, job search, etc. The Department of Labor determines the eligibility of workers by certifying whether their layoff is related to trade. The program also provides loans, loan guarantees, and technical assistance to firms affected by imports.

The Administration has heretofore opposed TAA extension because of two major factors:

1. Evidence shows that the current program does not help workers adjust and in fact may hinder their adjustment. The current program relies primarily on providing cash benefits, which provides little incentive to adjust to new employment. In fact, by providing extended benefits, the program provides perverse incentives for people to stay out of work.

   Empirical evidence on the TAA program that was in effect prior to 1981 suggests that the program did not help workers adjust to new employment. Few workers entered training or took advantage of job search or relocation assistance. The Administration reoriented the program emphasis to stress training. As a result in 1984 approximately 40 percent of workers entered training; 5 percent utilized job search and about 15 percent took advantage of relocation assistance.

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

It is unclear whether requiring recipients to participate in active job search or training in order to qualify for cash benefits would promote greater adjustment than simply providing cash benefits. The available evidence suggests that training provided by the government does not significantly promote adjustment.

2. The program costs have historically been high. From 1976 to 1980, program costs escalated from $147 million to $1.6 billion. The Administration successfully reduced the scope of the program in the Omnibus Budget Reconciliation Act of 1981 and now estimates that the annual budget outlays would be in the $150 million range over the next few fiscal years if the program were extended in its current form.

CURRENT STATUS

It appears certain that the Congress will pass some legislation extending and expanding TAA. Not only is there pressure to pass legislation assisting workers losing their jobs because of imports, the trade committees face particular pressure to authorize an assistance program separate from the displaced worker program (Title III) in the Job Training Partnership Act (JTPA) because they must act on trade measures, in general.

The first concurrent budget resolution assumed that TAA would be extended unchanged for 3 years beyond its September 30, 1985 expiration date and be financed at about $100 million annually. The House Ways and Means Committee reported legislation on July 31 that would extend TAA for workers and firms for 4 years and expand eligibility to workers displaced by movement of production overseas.

The Senate Finance Committee reported legislation on September 20 that would extend TAA for 6 years, eliminate loans and loan guarantees for firms, make training an entitlement, extend coverage significantly to include secondary suppliers of parts and services, and finance the program by creating a new fee of up to 1 percent on all imports, which would generate up to about $3 billion annually. The Senate sponsors estimate that only a small fraction of the 1 percent import fee would be necessary to finance the expanded TAA program at about $200-300 million annually.

POLICY OBJECTIVES

The following objectives should guide the Administration's consideration of each option.

1. Promote adjustment by workers into new jobs. Any program should maximize incentives for workers to seek new employment.

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

2. Contribute to reducing protectionist pressures in the Congress. Many members of Congress, particularly those in the trade committees, see adjustment assistance as necessary for meeting the needs of workers affected by imports.

3. Minimize budget costs. Any extension and/or modification of TAA should minimize current and future budget costs and avoid duplication of existing programs, such as Title III in JTPA.

4. Any option chosen should eliminate the Commerce Department program of loan guarantees to trade impacted firms and, if necessary, allow Commerce to negotiate an effective technical assistance program with the Congress.

POLICY OPTIONS

The Administration faces the following five policy options:

Option 1: Continue opposing TAA extension.

Advantages

- o If successful, opposing TAA extension would reduce projected budget deficits by about $150 million annually.
- o Opposing TAA extension would avoid spending funds on a program that evidence shows does not effectively promote adjustment by workers.

Option 2: Continue opposing TAA extension, but expand resources for that portion of Title III in JTPA over which the Secretary of Labor has discretionary spending authority. Moreover, target discretionary spending on workers affected by imports. Annual funding of TAA: $0, funding of Title III: $100 million. Would cover about 28,000 displaced workers.

Expanding resources for Title III would require a supplemental appropriation, however, which would hurt efforts to keep appropriation bills within the limits for discretionary amounts in the concurrent budget resolution.

Advantages

- o This approach concentrates Federal funds on Title III, which is more likely to help workers adjust to imports than TAA. A recent report by the Department of Defense, prepared with the President's Economic Adjustment Committee, concluded that the Title III approach provides

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

adjustment assistance more effectively because it involves business, labor, and community groups in design and delivery; and provides assistance without the delay caused by the lengthy certification process in TAA.

- o This approach costs less than expansion or straight extension of TAA since it would eliminate firm assistance and does not create a new entitlement.

Option 3: Continue opposing TAA extension in reconciliation legislation and address a straight TAA extension in trade legislation. Annual funding at current levels: $151 million. Would cover about 42,000 displaced workers. Would eliminate loan program to firms.

Advantages

- o Pressing for a straight extension minimizes budget costs relative to those of proposals to expand TAA.

- o Still provides the Administration credit for supporting a program that is likely to be extended and specifically aimed at helping workers affected by imports and, thus, may enhance our ability to press for free trade.

Option 4: Support extending and modifying TAA by providing discretionary funds to target hard-hit communities and industries and aiming to accelerate the reemployment of displaced workers. Funding: $251 million (current $151 million and $100 million for discretionary fund). Would cover about 60,000 displaced workers.

This option would modify TAA by:

- o Creating a discretionary fund of $100 million for the Secretary of Labor to target training on workers affected by imports not eligible for TAA training, such as employees of suppliers and those in regions and industries heavily affected by imports. It should be noted that this program would duplicate Title III and considerably broaden the scope of the program beyond those workers directly affected by imports.

- o Requiring a dislocated worker immediately on exhausting any UI benefits to engage in active job search in order to receive TAA cash benefits; and after 12 weeks of such activity without finding a job, TAA would give the worker a voucher for up to an additional 40 weeks solely to pay for approved classroom or on-the-job training. The voucher size would be set such that the total cost of the program equals its current costs ($151 million).

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

- Eliminating loan and loan guarantees to firms affected by imports and providing fast-track technical assistance after determining a firm is eligible for TAA.

- Financing the program through either general revenues or a surcharge of about .001 percent on imports, which would yield about $300 million annually.

It should be noted that supporting an import surcharge, even one of .001 percent, would reduce the credibility of the Administration to oppose import surcharges, in general, and be inconsistent with the U.S. obligations under the GATT.

Advantages

- To the extent that active job search and/or training programs lead to greater adjustment, requiring TAA recipients to participate in such activities may enhance the likelihood that they will find new employment.

- Provides the Administration credit for supporting a program that is likely to be extended and specifically aimed at helping workers affected by imports and, thus, may enhance our ability to press for free trade.

- Proposing modification of TAA may improve the Administration's ability to shape a program (including TAA loan to firms) that is more effective and less costly than what the Congress would pass.

Option 5: Support reduction and modification of TAA by providing compensation as a lump-sum based on previous work experience, rather than over a 26- or 52-week period. Funding at current levels: $60 million. Would cover about 20,000 displaced workers.

While this option would not change the certification procedures and financing of the program through general revenues, it would base eligibility and payment amounts on the years of experience with an employer and on prior earnings, instead of on weeks of continuing unemployment. After exhausting his or her regular State UI benefits, an eligible worker would receive a lump sum payment that would average about $1600 for a worker with 5 years of firm experience and about $5000 for one with 25 years. Workers would need to have a minimum experience of 5 years, instead of the 25 weeks under the current program, to qualify for benefits. This change would reduce program costs since about half of potential TAA recipients have fewer than 5 years of firm experience. This option would eliminate the loans and loan guarantee authority to firms.

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4

Advantages

- Lump-sum payments would allow people to make better choices of work, training, self-employment, relocation, or retirement. Option 4 requires some people to take training they may not need.

- This approach would avoid discouraging recipients from seeking work because, after providing the lump-sum payment, it would no longer continue to provide recipients payments for not working.

- This approach would reduce TAA spending by more than half because it would eliminate TAA training and firm loan guarantee program.

In addition to the options discussed above, the Working Group will continue to consider other options including the proposed additional option from CEA. CEA is proposing creating a new contracting mechanism to enlist the involvement of the private sector in enhancing the employability of dislocated workers through a bidding process in which payment to winning bidder is keyed to earnings of target workers. Due to the radical nature of this proposal, a considerable amount of time will be required to assess its implications on current legislation.

Sanitized Copy Approved for Release 2010/04/30 : CIA-RDP87T00759R000200210018-4